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Scenario Analysis of the COVID-19 Pandemic

Analysis of key classes in the US and UK (including London Markets) P&C Insurance Industries

By
Richard Clarkson (https://www.willistowerswatson.com/en-GB/Insights/all-insights#sort=%40fdate13762%20descending&f:@authors=[Richard Clarkson])
,
Christopher Bozman (https://www.willistowerswatson.com/en-GB/Insights/all-insights#sort=%40fdate13762%20descending&f:@authors=[Christopher Bozman])
and
Will Shuter (https://www.willistowerswatson.com/en-GB/Insights/all-insights#sort=%40fdate13762%20descending&f:@authors=[Will Shuter]) | May 1, 2020

The COVID-19 pandemic presents a rapidly developing situation for insurers. In this report we produce an initial estimate of the financial impact to the insurance industry for key impacted lines of business/geographies and outline a framework to assist insurers to manage their business during these challenging times. Our focus is on the US and UK markets, where the UK market includes that business transacted through the London Market.

This represents an early attempt to understand the different dynamics affecting insurers. Our efforts at quantification should provide directional insights and illustrate relative orders of magnitude around this event. However, they should not be considered as point estimates and are almost certainly going to change as more information becomes available. Each section of the report sets out different elements of our framework, built up logically with a range of scenarios assessing potential impacts by line of business, and finally, with suggested mitigating activities that could be undertaken for insurers.

In Section 1 we share our overall estimate of the potential COVID-19 insured losses across a range of pandemic scenarios, with loss estimates provided for those insurance classes that we expect to be materially affected by COVID-19. These comprise US and UK Business Interruption, Contingency, Directors & Officers, General Liability, Trade Credit and Workers Compensation. Additionally, we estimate the potential offset effect from US and UK Motor classes.

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Based on our 'Moderate' scenario (six months of social distancing) we estimate there could be US$32 billion of COVID-19-related insured losses from the adversely affected lines and geographies we have quantitatively reviewed.

Where an insurer has a large motor book, especially in the US, their COVID-19 losses will likely be mitigated as a result of an expected reduction in motor-incurred claims. This is manifesting in mono-line motor insurers offering significant premium rebates.

Our scenario-based approach is described in Section 2. The scenarios used are based on epidemiological models developed by our Life Insurance experts and informed by the latest mortality information. Each scenario includes the assumed duration of social distancing (3, 6 or 12 months) and an estimate of the economic impact; including forecasts of the length of the resulting economic recession and timeframes on how long GDP will take to recover to 'pre-COVID' levels.